Office
d Ave. S.
n, Sask. S7K 2M1
-9465

national farmers union

In Union Is Strength

National Farmers Union

Submission

to the

Senate Standing Committee on
Agriculture & Forestry

on the subject of

Financing the Family Farm to the Year 2000

presented in

awa, Ontario November 17, 1987

National Office
250C - 2nd Ave. S.
Saskatoon, Sask. S7K 2M1
(306) 652-9465

national farmers union

In Union Is Strength

National Farmers Union

Submission

to the

Senate Standing Committee on
Agriculture & Forestry

on the subject of

Financing the Family Farm to the Year 2000

presented in

Ottawa, Ontario November 17, 1987

National Farmers Union
Submission
to the
Senate Standing Committee on
Agriculture & Forestry
on the subject of
Financing the Family Farm to the Year 2000
presented in

Ottawa, Ontario November 17, 1987

We welcome this opportunity to appear before your Committee to assist in your study on financing the family farm to the year 2000.

This is a subject of vital interest to members of the NFU because our organization is comprised entirely of farm families. All of us here today are directly involved in family farm operations. We know from first-hand and often bitter experience that we face a continuing struggle for survival. We are still on our farms, but it is far from certain that we will still be there next year, in five years or by the year 2000.

Every community can recount farm families who were engaged in farming five years ago and are no longer there today. We personally know farm families who were farming last year, but this year are included among the statistics of farm foreclosures, "voluntary" liquidations or bankruptcies.

There is no great concern evident among the general public that many productive and highly capitalized farms are falling victim to the economic violence created by the combination of high input costs, low farm product prices, usurous interest rates and in some cases, the additional burden of natural disasters. There remains an abundance of cheap food with less of the average consumer's dollar spent on food than ever before in our history.

Farm families are, of course, not the only victims of the economic system. Technological change and government and corporate reorganizations have resulted in thousands of job displacements, early retirements and small business collapses over the past decade.

Without question, the magnitude of the current crisis in farming makes its impact far more identifiable on a distinctive group within our society. Farmers are wealth-producing and both their production and input consumption is a generator of considerable economic activity throughout the nation and internationally. It is estimated that 15 per cent of the national workforce is directly dependent on the handling, processing and distribution of food produced on Canadian farms. The economic spin-off from farm earnings can multiply by 3 to 5 times depending upon the value-added content of food produced.

Some economists openly welcome and even encourage the continuing pursuit of public policies that will further contribute toward the wholesale displacement of farm families. The current shakedown of the industry, they believe, will make Canadian agriculture more "lean and competitive". The question arises: "For whose benefit?" The number of farm families has been steadily declining over the past 40 years. In large measure this has taken place in a state of orderly transition as capital increasingly replaced labour with new technology and techniques.

Invariably higher productivity has been rewarded by lower prices and narrowing margins of return. Decline in farm family numbers has not resulted in less land under cultivation. In many instances total productivity has increased but net income has not. Stability and security in farming has not been guaranteed through greater efficiency.

There are some disquieting facts about the structure of agriculture in Canada that raise serious concerns. The spectrum of farm size has broadened very considerably as has the productivity between farmers. There is in reality no "average" farm stereotype that now can easily be applied to farming. The 1986 Census of Agriculture reports 54,643 farms in Canada had gross sales of under $5,000 in 1985 and 58,404 reported gross sales of over $100,000. It is estimated that 80 per cent of all food produced in Canada comes from this top 20 per cent of our largest farms.

Secondly, farmers as a group earn most of their income from non-farm sources. A 1983 survey of farm taxfilers found average farm income to be $3,929 representing 21 per cent of their total income of

$18,744. The 209,740 taxfilers producing under $20,000 in gross sales (48 per cent of all farm taxfilers) averaged farm losses of $586 while earning overall incomes of $20,169. Limited resource farmers producing from $20,000 to $49,999 in gross sales earned an average of $3,799 in farm incomes and overall incomes of $16,239. Farmers producing over $50,000 in gross sales reported average farm incomes of $10,658 but only average total incomes of $18,123. Needless to say they had meagre returns on capital. (See Table 1)

These returns were reported in 1983. The imbalance between farm and non-farm income is much worse today. These statistics furthermore indicate that increasingly farming has become a part-time profession in which a very large number of farm operators are forced to subsidize the cost of food production through off-farm employment.

A third concern is that 1986 has been heralded by some economists as a year in which net farm income recovered from the 1982 recession. It attained a record high of $5.8 billion, or 28% above its last peak attained in 1981. (Table 2) This claim, reflecting apparent well-being in the industry, is overshadowed by the massive 1986 payouts from government stabilization and other programs as well as crop insurance which made up 39% of net income compared with only 18% in 1981 and 9% in 1971. In the absence of these payments, real net farm income in 1986 would have been lower than it was in 1981 or 1971. The percentage of farm income from these various forms of government payments is expected to grow very significantly over 1987 and 1988, particularly in Western Canada.

In an updated profile of the industry presented by Ralph Ashmead of the Farm Credit Corporation to the Canadian Bankers' Association Agricultural Credit Conference in Toronto earlier this month, it was reported that as of January 1, 1987, some 8% or 14,000 commercial farmers (sales greater than $20,000) were in a near insolvent position. A further 23% or 40,000 were in some degree of cash flow difficulty and would be particularly vulnerable to future negative price and cost shocks. The balance of producers, 69%, were judged to be in a relatively stable financial position. That was the situation nearly one year ago. Since then economic conditions have continued to deteriorate, especially as a consequence of the continuing destructive U.S.-E.E.C. subsidy war. Today, we predict, fewer than 69% of

Table 1: Average Net Income of Farm Tax Filers by Source and by Level of Gross Farm Income, Canada, 1983 ($)

Gross Farm Income ($)	Number of Farm Tax Filers	Net Farm Income	% Farm Tax Filers Reporting Off-Farm Income	Wages and Salaries	% Farm Tax Filers Reporting Wages and Salaries	Business Income	% Farm Tax Filers Reporting Business Income	Rental Income	% Farm Tax Filers Reporting Rental Income	Investment Income	% Farm Tax Filers Reporting Investment Income	Other Off-Farm Income	% Farm Tax Filers Reporting Other Off-Farm Income	Total Off-Farm Income	Total Income
Nil (or no response)	17,185	205	98.3	15,720	56.6	2,452	14.6	-209	12.1	3,907	77.0	2,725	60.7	24,595	24,800
1 to 2,499	49,885	-1,734	98.8	15,868	67.2	1,705	15.1	-56	13.5	3,333	74.7	3,061	71.3	23,911	22,177
2,500 to 4,999	37,125	-1,374	97.8	14,190	63.0	1,381	12.7	71	11.5	3,437	75.5	2,891	70.6	21,969	20,595
5,000 to 7,499	28,050	-643	96.1	12,025	57.1	1,237	11.9	65	10.1	3,306	75.3	2,788	66.8	19,422	18,778
7,500 to 9,999	21,300	-344	96.1	11,503	54.8	1,314	11.1	53	9.9	3,732	76.4	2,743	67.1	19,346	19,001
10,000 to 14,999	32,495	320	95.6	10,332	50.7	1,068	10.6	51	9.5	3,661	76.8	2,630	65.7	17,743	18,062
15,000 to 19,999	23,700	1,101	95.3	9,265	47.6	873	9.9	99	8.9	3,665	77.1	2,495	64.8	16,395	17,497
20,000 to 24,999	19,170	1,944	94.3	7,814	42.9	884	9.1	143	8.4	3,776	76.3	2,402	63.1	15,020	16,964
25,000 to 29,999	16,110	2,850	94.2	6,987	40.4	736	9.0	72	7.7	3,374	75.5	2,165	62.3	13,333	16,182
30,000 to 34,999	14,220	3,771	93.4	5,969	37.3	717	8.5	136	7.3	3,559	75.8	2,071	61.5	12,452	16,223
35,000 to 39,999	12,590	4,406	93.7	5,236	34.1	693	7.8	121	6.9	3,353	75.6	1,932	61.2	11,335	15,741
40,000 to 49,999	21,890	5,791	93.1	4,330	30.8	640	7.0	94	6.6	3,278	75.4	1,810	61.3	10,152	15,942
50,000 to 74,999	42,430	7,977	92.7	3,175	25.6	479	6.8	69	6.1	3,078	74.0	1,503	62.2	8,304	16,281
75,000 to 99,999	29,130	10,543	92.2	2,290	21.9	410	6.2	48	6.1	2,838	73.3	1,384	63.7	6,970	17,514
100,000 to 149,999	33,370	12,026	91.7	2,019	19.8	405	5.8	-10	6.5	2,816	71.9	1,325	64.1	6,555	18,582
150,000 to 199,999	15,280	12,823	90.8	1,880	17.4	248	5.7	12	7.2	3,075	70.7	1,345	63.9	6,560	19,384
200,000 and over	22,175	12,386	90.4	2,676	15.7	209	6.0	-68	7.6	4,104	72.1	1,585	61.3	8,507	20,892
Average of all Farm Tax Filers	436,110	3,929	94.7	8,234	41.9	946	9.6	35	8.9	3,384	74.8	2,216	65.0	14,815	18,744
Subtotal 0-19,999	209,740	-586	97.1	12,998	58.2	1,414	12.5	15	11.1	3,524	75.9	2,804	67.7	20,754	20,164
Subtotal 20,000-49,999	83,980	3,799	93.7	6,049	37.0	735	8.2	112	7.4	3,469	75.7	2,076	61.9	12,440	16,239
Subtotal 50,000 & over	142,385	10,658	91.8	2,506	20.9	381	6.2	19	6.6	3,127	72.7	1,433	63.0	7,466	18,123

Source: Special Statistics Canada tabulation of Farm Tax Filer data.

TABLE 2 INCOME FROM FARMING — CANADA

	Gross Income					Total Operating Expenses & Depreciation Charges	Total Net Farm Income
	Total	Cash Receipts	Supple-mentary Payments	Income in Kind	Value of Inventory Changes		
				— $ millions —			
1971	4,853	4,551	18	113	170	3,414	1,439
1972	5,397	5,521	14	126	(264)	3,765	1,632
1973	7,772	7,020	12	169	571	4,569	3,203
1974	9,129	8,984	57	158	(70)	5,629	3,499
1975	10,585	10,138	30	155	262	6,535	4,050
1976	10,523	10,128	—	187	208	7,300	3,222
1977	10,607	10,206	—	184	217	7,943	2,664
1978	12,460	12,030	—	219	211	9,166	3,294
1979	14,616	14,337	—	258	21	11,056	3,560
1980	15,915	15,849	31	266	(231)	12,829	3,086
1981	19,775	18,533	157	274	812	15,208	4,567
1982	19,064	18,615	175	270	5	15,582	3,482
1983	18,362	18,708	8	261	(615)	15,662	2,700
1984	19,634	20,286	50	266	(968)	16,250	3,383
1985	20,606	19,786	149	251	420	16,274	4,331
1986	21,619	20,013	366	265	974	15,779	5,840

Source: Statistics Canada
Tables may not add due to rounding.

TABLE 2-A NET FARM INCOME MINUS NON-MARKET RECEIPTS

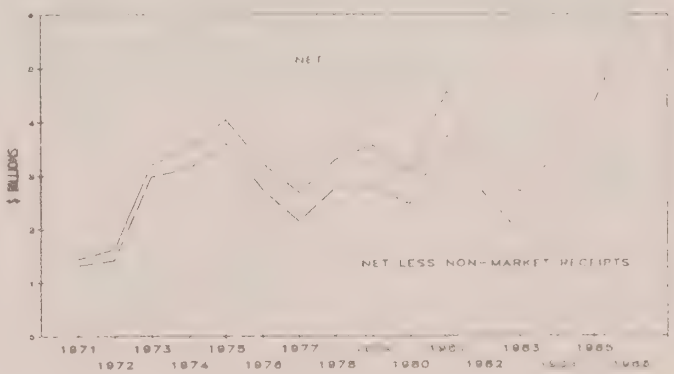
	Total Net Farm Income	Total Net Income Minus Non-Market Receipts*
	— $ millions —	
1971	1,439	1,311
1972	1,632	1,415
1973	3,203	2,977
1974	3,499	3,128
1975	4,050	3,601
1976	3,222	2,740
1977	2,664	2,148
1978	3,294	2,779
1979	3,560	2,784
1980	3,086	2,465
1981	4,567	3,744
1982	3,482	2,677
1983	2,700	1,918
1984	3,383	2,065
1985	4,331	2,561
1986	5,840	3,539

*Includes: Supplementary payments, Western Grain Stabilization payments, dairy supplementary payments, deficiency payments, provincial stabilization payments and crop insurance.

Source: Statistics Canada

CHART 2A

NET FARM INCOME MINUS NON-MARKET RECEIPTS



producers may be "relatively stable" as the worsening farm economy continues to consume their equity.

A continuing high farm debt problem overhangs the farm economy. The value of farm capital and equity has dropped sharply since 1982. Farm debt continued to rise until 1985 and has dropped only marginally in 1986. (Tables 3 and 4)

TABLE 3 FARM DEBT AND FARM CAPITAL — NOMINAL AND REAL TERMS

	NOMINAL TERMS		REAL TERMS**	
	Value of Farm Capital*	Farm Debt	Value of Farm Capital*	Farm Debt
	— $ millions —			
1971	23,882	4,617	56,998	11,019
1972	26,225	4,980	59,199	11,242
1973	31,658	5,740	65,680	11,909
1974	39,820	6,750	72,269	12,250
1975	48,284	7,962	79,677	13,139
1976	57,043	9,359	86,691	14,223
1977	64,534	10,630	92,323	15,207
1978	76,871	12,151	103,600	16,376
1979	95,359	14,644	116,862	17,946
1980	117,047	16,583	129,764	18,385
1981	130,397	18,417	130,397	18,417
1982	131,589	19,805	120,835	18,186
1983	127,256	20,831	111,335	18,225
1984	123,033	21,378	103,913	18,056
1985	115,279	22,666	94,182	18,518
1986	109,577	22,213***	87,104	17,657***

Source: Statistics Canada
*Newfoundland is included in this series commencing 1976.
**Deflated by the Gross Domestic Product Implicit Price Index.
***Estimated

TABLE 4 FARM BALANCE SHEET — CANADA

	Value of Farm Capital*	Farm Debt	Farm Equity	Equity as % of Total Capital
	— $ millions —			
1971	23,882	4,617	19,265	80.7
1972	26,225	4,980	21,245	81.0
1973	31,658	5,740	25,918	81.9
1974	39,820	6,750	33,070	83.0
1975	48,284	7,962	40,322	83.5
1976	57,043	9,359	47,684	83.6
1977	64,534	10,630	53,904	83.5
1978	76,871	12,151	64,720	84.2
1979	95,359	14,644	80,715	84.6
1980	117,047	16,583	100,464	85.8
1981	130,397	18,417	111,980	85.9
1982	131,589	19,805	111,784	84.9
1983	127,256	20,831	106,425	83.6
1984	123,033	21,378	101,655	82.6
1985	115,279	22,666	92,613	80.3
1986	109,577	22,213**	87,364**	79.7**

Source: Statistics Canada
*Newfoundland is included commencing in 1976
**Estimated

The country's major farm lending institutions stubbornly refuse to face the realities of the collapse in the farm economy and choose to maintain an inflated account receivable against farm debtors which they have little hope of recovering. In the meanwhile, farm families are held hostage until such time as their creditors can legitimately depossess them of assets and dump them on a scrap heap of broken dreams and promises. This may be considered a melodramatic description of foreclosures and bankruptcies but we make the point that the current farm crisis is very much a human problem bearing psychological and sociological implications. How does a farmer accept the loss of a farm that has been in the same family for three or more generations?

The imminent loss of 14,000 farm families represents a

disaster of major proportions. If such a loss were targeted in a single industrial or service sector, it would rate full-scale public attention and protest. The threatened loss of an additional <u>23,000</u> jobs would spark massive demonstrations and political action.

The farm crisis has been building for more than 8 years. Thousands of farm families have already been displaced - thousands more stand on the threshold of extinction. With such a massive problem confronting our nation <u>here</u> and <u>now</u>, <u>government must clarify the depth of its commitment toward saving the farm family structure of agriculture in Canada</u>.

The government has, however, been very much committed to a market-oriented policy in which the market economy is accepted to be the best allocator of supply. While the market economy may be accepted as a means of encouraging efficiency, it does little to encourage good conservation practices as a committee of this Senate clearly documented in its report, "Soils At Risk". There is no evidence to suggest government has any policy intentions to end soil degradation and exploitation. There is no evidence of commitment toward looking upon farm land as a resource that must have the benefit of policies that are environmentally correct and that provide the opportunity for large scale employment and self-sufficiency in food production.

Instead, we stand on the threshold of unleashing upon agriculture a new scientific approach to food production through biotechnology that can lead only to greater industrialization of the industry and the continuing erosion of values in farming that constitute a way of life for farm people.

<u>We regretfully have come to the conclusion that the commitment of government toward stabilizing the farm family tradition of agriculture in Canada is quickly waning.</u>

Since first drawing the attention of government to the serious farm debt crisis which has been emerging since 1979, little of consequence has been done to reverse the trend and at best half measures have been taken. For example:

-- Early proposals for ressurection of the Farmers Creditors' Arrangement Act and proposals for the imposition of debt moratorium legislation were refused when presented in 1980.

-- Proposals for debt restructuring were similarly declined when presented in subsequent years.

-- A private member's bill to reintroduce debt adjustment proposals died on the order paper after two years of full-scaled debate and hearings.

-- A debt moratorium on Farm Credit Corporation loans was implemented from November 1985 to the spring of 1987. It was lifted following the passage of the Farm Debt Review Act. Commodity-based F.C.C. loans have met with only limited success.

-- The Farm Debt Review Act has established Farm Debt Review Boards which possess no powers to compel creditors to accept settlement proposals in order to accommodate the repayment abilities of farm families. As a consequence, thousands of acres of farm land are accruing to lending agencies, including F.C.C.

-- As the major public lender, the F.C.C. faces massive losses again this year after experiencing uncollectable debts of $344 million in 1986. The government has taken no action to restore the F.C.C. to firm financial standing, but is apparently prepared to have it continue foreclosing on still more family farms.

-- The ritual of the debt review process has enabled the chartered banks and other private and public lending institutions to participate in the current land grab. Primarily their interests are being protected - not those of farmers.

-- We believe many farmers have fallen victim to bank overcharges on interest rates - a matter government has overlooked and ignored by failing to investigate the legitimacy of farmers' claims.

-- The government now proposes to cast the future of the farming industry upon the shark-infested and turbulent waters of a Canada-U.S. free trade deal. It is an absolutely appalling situation when it is prepared to trade off the market stability provided by supply-management programs for milk, chickens, eggs and turkeys;

revoked Canadian Wheat Board import licensing over wheat, oats and barley and products thereof; concedes the Crow benefit payments on products shipped to the U.S. as constituting unfair producer subsidies; writes off the future of grape growers and the wine industry.

<u>The effect of the free trade deal will be to lower prices for farm products which will result in lower farm incomes.</u>

The future of the Canadian family farm structure in Canada is extremely uncertain. It is being recast to fulfill a residual role within a North American continental policy in which diversified Canadian production to achieve self-sufficiency is being sacrificed. In the fashioning of a "level playing field", lower prices and competitive production will greatly narrow the scope for income opportunity and wipe out thousands of additional farm families by the year 2000. We predict that current policies and trends will transform much of agriculture into a series of super-farm complexes by the year 2000 with little relationship to the traditional concept of family farms.

The current crisis in agriculture has struck hardest at younger farmers who have entered the industry within the past 20 years. The hope for entry into farming of the current generation of young farmers is extremely bleak. The youth of our organization undertook a special study of the problems associated with the intergenerational transfer of farm land in 1985. It found the opportunities for entry to be extremely narrow.

Current conventional wisdom surfacing among the new ruling class of landlords in the farm community - the banks, F.C.C. and some provincial lending institutions, includes proposals for equity financing. Under these schemes the lending institutions hope to convert vanquished farmers into sharecroppers and at the same time liquidate some of their assets with private investors in order to share the risk.

While lending institutions will eventually be forced to substantially write-down the book value of farm property upon which they have forclosed, they are unprepared to "bite the bullet" for many of their current farmer debtors who might be able to survive if write-downs brought their debts closer to reality.

The investors in equity financing schemes will demand a return on investment. It surely cannot come from farm profits in today's climate. Shall it be provided through the tax system? We submit it would be preferable to strike a new deal with farmers.

Our definition of a family farm cannot be satisfied through farm equity programs. That definition specifies that the family:

-- have majority control of capital;
-- be responsible for management decisions;
-- provide the majority of farm labour.

Government, in striking a new course for re-establishing farm families in Canada, should act upon the following proposals:

1. Agriculture must be immediately divorced from any free trade agreement with the United States. Our future as an industry rests upon expanding our agricultural trading opportunities on a global basis rather than reshaping the industry to conform with U.S. trade laws and priorities. If this action is not taken, future Canadian farm marketing and pricing will be largely influenced and controlled by the U.S. and much of our industry will be decimated.

2. Supply-management programs for price-sensitive farm products targeted to serve mainly the domestic market must be strengthened. A strategy for self-sufficiency only makes common sense in our view.

3. Farm Debt Review Boards currently accommodating the investment interests of lending institutions in what amounts to a ritual exercise required to legitimize farm foreclosures, must be overhauled to provide such boards with the rights to impose binding-settlement offers upon creditors. The objective must become to salvage farm operations rather than "grease the skids" for their removal.

4. The private lending institutions must be phased out of long-term lending to farmers for the purposes of land purchase. Lending for land purchases by farmers must be returned to crown agencies who are better able to respond to varying economic conditions in agriculture through the inclusion of social objectives in lending policies.

5. Private lending institutions must be divested of farm lands they have acquired through foreclosure. Such lands might be transferred to public lending agencies for inclusion in a new program directed toward assisting young or beginning farmers to become established through optional long-term lease or low interest long-term purchase agreements capable of providing security of tenure.

Only by radically changing the directions and priorities currently evident in Canadian agriculture policy can we anticipate the survival of a healthy and vibrant family farm agriculture by the year 2000.

In considering the issue of financing the farm family to the year 2000, we submit that the provision of farm credit is not in itself a solution for assuring the survival of family farms. It is impossible to survive if the price of farm products is too low to recover production costs. The market system has failed miserably in providing security for farm people. Its failure has prompted the necessity to put into place various safety nets such as stabilization programs and marketing agencies. In recent years even these have been inadequate.

The general public must recognize that there is actual cost associated to food production and that farm families must be fairly compensated if this nation is to continue to benefit from cheap food through the essential services provided by farmers.

Farming in this country is on the threshold. We have a choice of consolidating the family farm structure or continuing on present policy trends toward a more industrial and vertically integrated industry.

All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION

national farmers union